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SUBJECT: 2006 ITALIAN TEXTILES AND APPAREL PRODUCTION DATA

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11. (U) Italy is the EU's largest manufacturer of textiles and apparel, accounting for almost a quarter of total EU textiles and apparel production. Italian industrial production in fiscal year 2006 was valued at 345.1 billion dollars. Textiles and apparel production made up 22.4 billion dollars (6.5 percent) of Italy's total industrial production and 8.3 percent of Italy's total exports. Of the 34.1 billion dollars of textiles and apparel goods exported in 2006, 2.3 billion dollars (6.7 percent) was exported to the United States. (Note. The Italian fiscal year coincides with the calendar year. The value of Italian textiles and apparel exports exceeds the value of textiles and apparel manufactured domestically because Italian firms are focusing on high value-added activities. The value of export reflects the value of imported parts (e.g., collars and cuffs) and material plus the value of Italian assembly and finishing. End note.) In the first half of 2007, Italy exported 1.1 billion dollars of textiles and apparel to the United States, 6.1 percent of total Italian textiles and apparel exports.

12. (U) The value of Italian textiles and apparel exports grew by 3.9 percent in 2006, in line with the general recovery of Italian exports, but below the world average growth in textiles and apparel exports of nine percent. Higher prices for Italian textiles and apparel exports resulted in an increase in the value of textiles and apparel exports despite a two percent decrease in the quantity of goods exported in 2006.

13. (U) The Italian textiles and apparel industries face stiff competition from East Asian countries, especially China. From 1997 to 2006, Italy lost market shares in the silk, woman's apparel, children's apparel, scarf, and shawl sectors, while improving or defending its market share in leather goods, woolens, cotton, linen, and yarn sectors.

Labor

14. (U) In 2006, the textile and apparel industries employed 760,000 people, 15.2 percent of the five million people in the Italian manufacturing sector. Employment in the textiles and apparel sector dropped dramatically in the period 2004/2005 from 869,000 to 783,000 units, with a further modest reduction in 2006. The reduction in the textiles and apparel workforce is the result of three trends in the industry: (i) a shift in textile and apparel manufacturing to

niches with higher value added, (ii) a reduction of quantity of goods produced, and (iii) the outsourcing of parts of the manufacturing process to countries with lower labor costs.

Prato: Case Study of an Industry in Crisis?

15. (U) The Prato District (near Florence) is Europe's largest textile district. In 2006, factories in Prato produced 4.46 billion euros worth of textiles and apparel, of which 2.39 billion euros worth were exported. Both output and exports were down from their 2005 levels of 4.51 billion and 2.44 billion respectively, a contrast to the increase in Italy-wide production and export figures. In a press interview on August 21st, 2007, the President of Prato Industrialists Association, Carlo Longo, cited four main reasons for Prato's relatively poor performance: (i) The continued presence of companies that perform the least value-added steps of the production process (other Italian companies have outsourced these processes), (ii) the relative small size of Prato textile companies, (iii) Chinese competition, and (iv) bureaucratic impediments to growth, including government inefficiency, lack of infrastructure, high water tariffs, and inefficient and costly waste treatment policies. Longo said that Prato, which has lost about one fourth of its textile and apparel output in the last five years, should shift its focus to higher value-added goods in order to increase the value of its textile and apparel production.

16. (U) Prato is also fighting stagnation by networking. For example, three Chinese businessmen recently inaugurated Euroingro, a 10,000 square meter showroom which will give wholesalers easy access to 120 companies with displays there. Euroingro represents an attempt to increase cooperation

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between Prato textile manufacturers and Chinese apparel producers. It also represents an attempt to fight counterfeiting, since all companies involved must sign a formal commitment to avoid the marketing of counterfeited or pirated products.

17. (U) Prato's textiles and Apparels manufacturers have also launched a project called "Mode in Prato," a consortium aimed at providing joint material/styling research, marketing, and services to member companies, to be inaugurated in September 2007. The member firms (presently five textile manufacturers and five apparel producers including two Chinese-owned companies) will also be required to sign a commitment to avoid marketing counterfeited/pirated products.

18. (U) In an additional attempt to improve Italian-Chinese trade cooperation, Giupel, the first and only Chinese-owned company to join Confindustria (The Italian Industrialists' Association) in Prato, is promoting the establishment of a 60,000 square meter wholesale center near Shanghai dedicated to the sale of "Made in Italy" products. The center, expected to open in 2008, will host up to 100 Italy-based firms and will provide Chinese personnel for promotional and marketing activities.

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